

KENTUCKY TEACHERS' RETIREMENT SYSTEM

IRS MODIFIES WITHHOLDING TABLES FOR SECOND TIME – WILL IMPACT JULY BENEFIT CHECKS

In March 2009, the Internal Revenue Service (IRS) established new federal tax withholding tables ("March tables") designed to accelerate the benefit of the "Making Work Pay" tax credit passed under the American Recovery and Reinvestment Act of 2009. In accordance with IRS requirements, KTRS had to implement these new withholding tables effective with the April 2009 benefit payments.

Unfortunately, most retirees would not qualify for the "Making Work Pay" tax credit. This meant the new withholding tables would lead to under-withholding of federal tax – and possible associated penalties – for many KTRS retirees and other benefit recipients. Accordingly, KTRS alerted retirees about the new withholding requirements, and many made adjustments to their withholding amounts to avoid under-withholding in 2009.

Following the release of the March tables, pension plans and national organizations petitioned the IRS to correct this problem before retirees were penalized. In response to these concerns, the IRS issued modified withholding tables ("modified tables") to be implemented starting with the July, 2009 benefit payments. This means that the withholding amounts will increase

for many retirees with a corresponding decrease in the net benefit amount. The IRS now believes that, without this change, many retirees would unexpectedly owe taxes when they file their 2009 tax returns - and could face interest and penalties.

Retirees who have changed the amount of withholding because of the March tables may now be in the position of having too much tax withheld from their benefit payments. KTRS has contacted these retirees to further explain this situation and offer special assistance to properly adjust the federal tax withheld. The confusion created by this change by the IRS is unfortunate, but we hope retirees will take the opportunity to review their tax situation with their tax advisors so that individual circumstances may be addressed. Though KTRS cannot offer individual tax advice, a hotline is available for retirees who have general questions or need special assistance regarding filing Form W-4P. The hotline number is (800) 618-1687 and the Form W-4P is available on the KTRS website at www.ktrs.ky.gov.

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